

MEMORANDUM

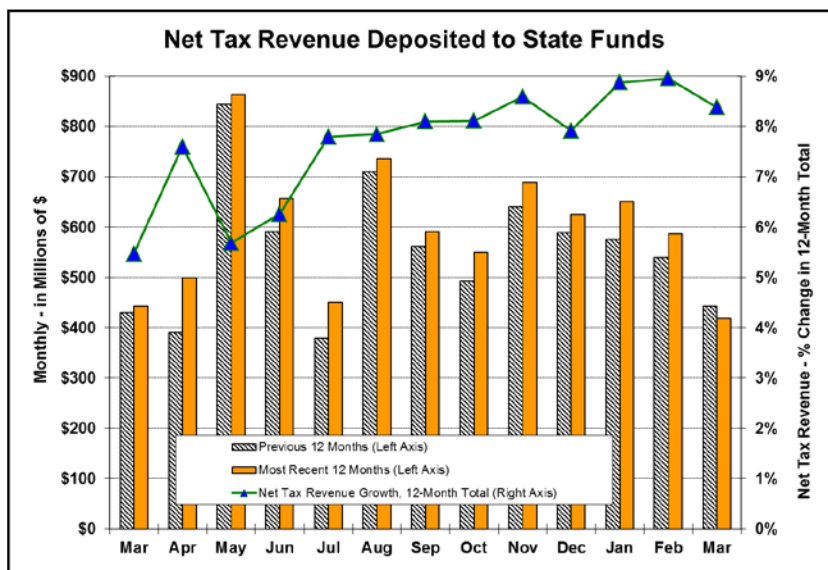
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: April 26, 2013

Twelve-month Total Net Tax Receipts Through March 31, 2013

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending March 2013 with comparisons to the previous twelve months. March 2012 to March 2013 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

While net tax receipts declined in March, much of the decrease was due to a change in the due date for farm income tax returns; a change that will provide a boost to April receipts. Corporate tax receipts were strong in March, but sales/use tax deposits were negative. Gambling tax

deposits also declined, but the large negative was due to a calendar issue that will reverse in May. At 8.4%, the annual net tax revenue growth rate is off its recent highs.

Month of March Comparison

March net tax receipts totaled \$418.5 million, a decrease of \$24.2 million (- 5.5%) compared to March 2012. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$33.2 million, - 21.4%) – Gross income tax deposits decreased \$34.8 million in March while individual income tax refunds issued decreased \$1.6 million. Income tax transactions since mid-December have been heavily influenced by the timing and results of the recent federal debate concerning income tax rate changes. The U.S. Congress enacted significant changes January 1, 2013. The uncertainty surrounding that legislation caused taxpayers to remit larger income tax estimate payments than normal. The uncertainty also caused federal tax return filing to be delayed, and this in turn delayed State filings. As a consequence, very few individual income tax refunds were issued in January and February 2013 compared to a normal year and farm tax returns, normally due March 1, were delayed until April 15.
- Sales/Use Tax (negative \$4.0 million, - 2.8%)
 - Road Use Tax Fund use tax (fee for new vehicle registration) increased \$1.6 million.
 - Gross General Fund sales/use tax receipts decreased \$4.5 million (- 3.0%). Regular sales tax refunds increased \$1.1 million and school infrastructure transfers out decreased \$0.1 million in March.
- Corporate Income Tax (positive \$10.2 million, 25.8%) – Deposits of corporate income tax receipts increased \$5.9 million in March, while corporate tax refunds decreased \$4.3 million.
- Fuel Tax (negative \$1.2 million, - 3.4%) – Gross fuel tax deposits decreased \$0.8 million for the month while tax refunds increased \$0.4 million.
- Cigarette and Tobacco Taxes (negative \$0.6 million, - 2.5%)
- Gambling Tax (negative \$6.7 million, - 20.7%) – Gambling tax is deposited weekly and generally on Thursdays. There were five Thursdays in March 2012 and only four in March 2013 and this accounts for the large monthly drop. This calendar situation should reverse in May.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending March 2013, net revenue from all taxes deposited to State funds totaled \$7.319 billion, an increase of \$566.1 million (8.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$309.1 million, 10.6%) – Despite the negative month of March, individual income tax continues to post significant year-over-year annual growth.
- Sales/Use Tax (positive \$133.6 million, 5.9%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).
- Corporate Income Tax (positive \$97.3 million, 28.1%) – Corporate income tax revenue has shown significant strength since May 2011.

- Fuel Tax (negative \$5.7 million, - 1.3%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 4.9% while taxable diesel sales increased 0.7%. Taxable total gallons have now decreased in 14 of the past 18 months, when compared to the same month the prior year. Taxable diesel sales over the most recent 12-month period are 3.6% lower than the March 2008 peak diesel sales level.
- Gambling Tax (positive \$1.1 million, 0.4%) – According to Racing and Gaming Commission statistics, 13 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending March 2013. The combined AGR growth for the 18 facilities was negative 0.3% over the previous 12-month period. Across all facilities, the AGR for the most recent 12 months totaled \$1.450 billion. The annual AGR total has now declined in three of the past four months and is 1.3% below the November 2012 peak.
- Real Estate Transfer Tax (positive \$3.9 million, 26.4%) – Annual real estate transfer tax receipts peaked in June 2006 at \$19.2 million and bottomed in May 2010 at \$12.8 million. A new annual peak was achieved in January, 2013. However, there has been a \$0.5 million decline from that new peak over the past two months.
- Cigarette and Tobacco Tax (negative \$5.6 million, - 2.4%).

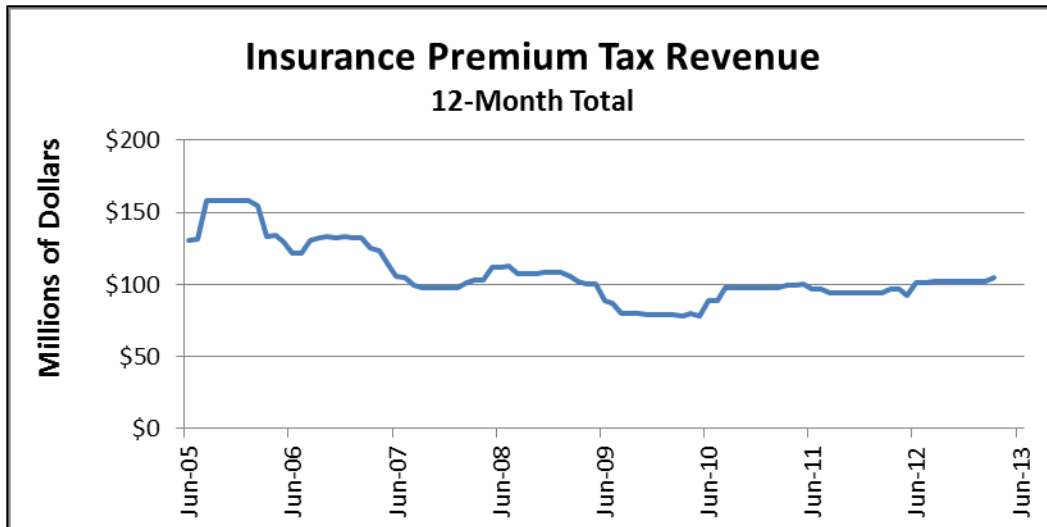
Tax Spotlight – Insurance Premium Tax

The insurance premium tax (Iowa Code chapters [432](#) and [432A](#)) is imposed on the premiums of all insurance companies except fraternal beneficiary associations. The tax is administered by the Iowa Insurance Division, with the Iowa Department of Revenue serving as the depositing entity for the tax receipts.

The Iowa insurance premium tax dates back to at least 1851 (Chapter 464, [1851 Code of Iowa](#)). The rate was established at 2.0%, with one-half of the revenue at that time devoted to county purposes and one-half to the State. The tax rate has been as high as 2.5%. Prior to legislation enacted during the 2002 Legislative Session (see SF 2318, Insurance Tax Rate Reduction Act), the insurance premium tax rate for most forms of insurance was 2.0%. As a result of that legislation, the tax rate was reduced in annual 0.25% increments until the rate reached 1.0%. For life and health insurance companies and associations and mutual health services corporations, the reduction started with policies issued in calendar year 2003 and reached 1.0% for 2006. For other insurance companies and associations (property and casualty), the reduction began in 2004 and reached 1.0 % for 2007.

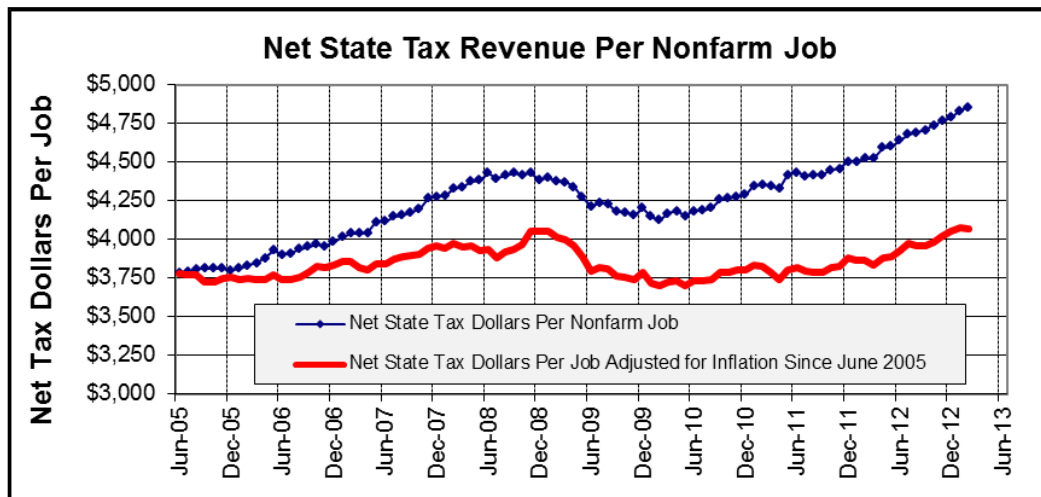
Iowa, like most or perhaps all other states, provides for a retaliatory insurance premium tax against insurance companies not located in the State. The retaliatory tax requires non-Iowa companies to pay either the Iowa tax rate, or the tax rate an Iowa company would be subjected to in the company's home state, if that rate is higher than the Iowa rate.

Insurance premium tax reports from all insurers are to be filed before March 1 of the year following the calendar year the tax is due. Prepayments are due in June and August and each payment equals 50.0% of the company's previous year tax liability. Tax receipts from the insurance premium tax are deposited in the State General Fund.



Tax Revenue and Employment

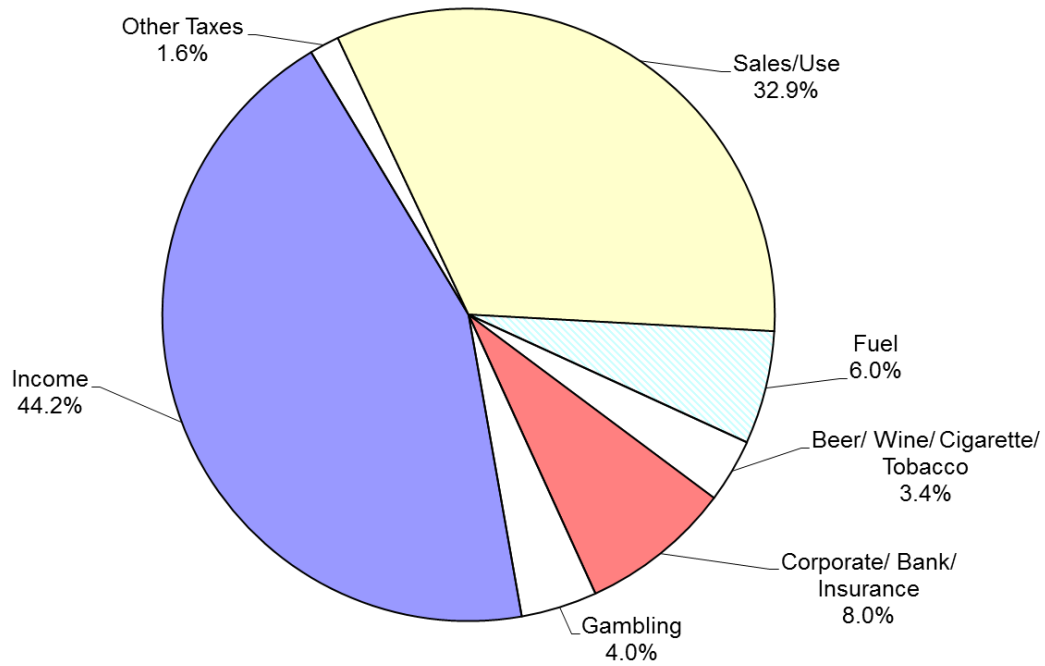
The average reading for Iowa nonfarm employment over the 12 months ending February 2013 is 1,512,000 and net State tax receipts over the same 12 months totaled \$7.344 billion, or \$4,857 per nonfarm job. This is \$1,072 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line on the graph adjusts the June 2005 net tax revenue per job for inflation, and indicates inflation-adjusted tax revenue per job has increased since June 2005 by \$317 and the remainder of the \$1,072 increase represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending March 2013

Net Revenue = \$7.319 Billion

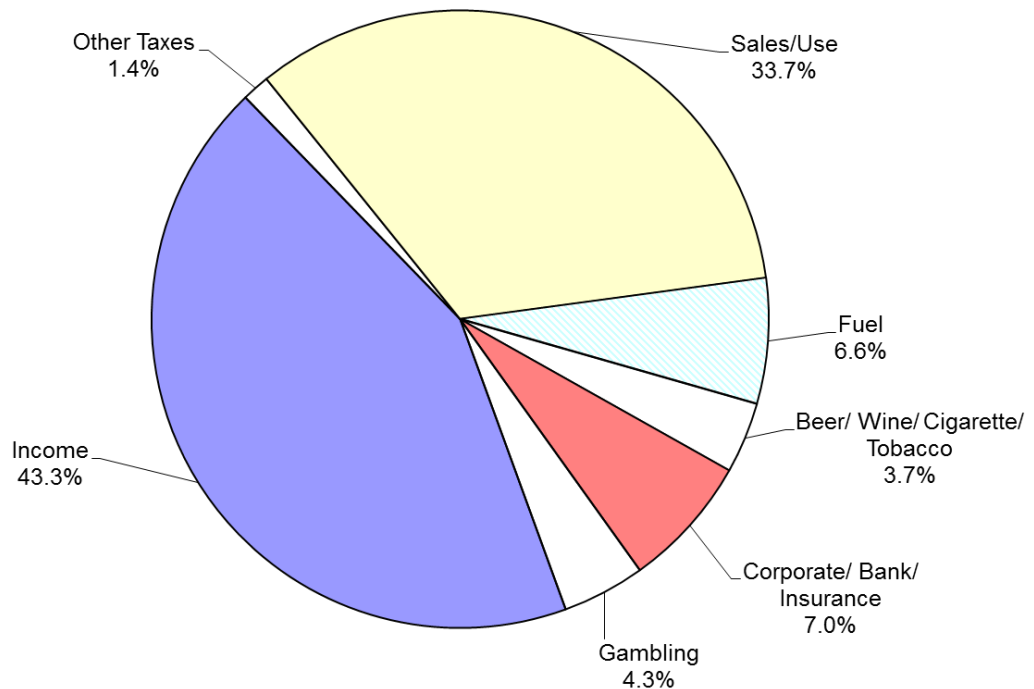
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending March 2012

Net Revenue = \$6.753 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of March 2012	Month of March 2013	March \$ Change	March % Change
Banking	\$ 27.2	\$ 37.2	\$ 10.0	36.8%	\$ - 2.6	\$ 3.1	\$ 5.7	--
Beer & Wine	21.6	22.0	0.4	1.9%	1.5	1.5	0.0	0.0%
Cigarette & Tobacco	229.5	223.9	- 5.6	-2.4%	23.8	23.2	- 0.6	-2.5%
Corporate Income	346.1	443.4	97.3	28.1%	39.5	49.7	10.2	25.8%
Fuel	443.1	437.4	- 5.7	-1.3%	35.8	34.6	- 1.2	-3.4%
Gambling	293.2	294.3	1.1	0.4%	32.4	25.7	- 6.7	-20.7%
Individual Income	2,924.5	3,233.6	309.1	10.6%	154.9	121.7	- 33.2	-21.4%
Inheritance	71.8	86.4	14.6	20.3%	3.4	5.9	2.5	73.5%
Insurance	96.6	104.9	8.3	8.6%	9.4	12.4	3.0	31.9%
Other Taxes	11.1	10.2	- 0.9	-8.1%	1.4	1.9	0.5	35.7%
Real Estate Transfer	14.8	18.7	3.9	26.4%	0.9	0.5	- 0.4	-44.4%
Sales/Use	2,273.8	2,407.4	133.6	5.9%	142.3	138.3	- 4.0	-2.8%
Total Net Taxes	\$ 6,753.3	\$ 7,319.4	\$ 566.1	8.4%	\$ 442.7	\$ 418.5	\$ - 24.2	-5.5%
Gross Tax & Refunds								
Gross Tax	\$ 8,077.5	\$ 8,547.1	\$ 469.6	5.8%	\$ 651.2	\$ 616.9	\$ - 34.3	-5.3%
Tax Refunds	\$ - 1,324.3	\$ - 1,227.7	\$ 96.6	-7.3%	\$ - 208.5	\$ - 198.3	\$ 10.2	-4.9%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,652.7	\$ 6,180.2	\$ 527.5	9.3%	\$ 350.5	\$ 332.4	\$ - 18.1	-5.2%
Road Use Tax Fund	\$ 744.8	\$ 757.3	\$ 12.5	1.7%	\$ 59.0	\$ 59.4	\$ 0.4	0.7%
Non-GF Gambling	\$ 224.4	\$ 251.6	\$ 27.2	12.1%	\$ 32.1	\$ 25.5	\$ - 6.6	-20.6%
Other State Funds	\$ 131.4	\$ 130.3	\$ - 1.1	-0.8%	\$ 1.2	\$ 1.3	\$ 0.1	8.3%
Local Option Taxes *	\$ 850.3	\$ 855.1	\$ 4.8	0.6%	\$ 85.5	\$ 83.6	\$ - 1.9	-2.2%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.